



FEDERATED STATES OF MICRONESIA

Office of The National Public Auditor

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September 22, 2016

His Excellency Peter M. Christian, President
Honorable Members of the FSM Congress

We have performed an audit of the statement of project account of the Federated States of Micronesia Omnibus Infrastructure Development Project (the Project), financed by Asian Development Bank (ADB) Loans 2099-FSM (SF) and 2100-FSM (OCR) for the year ended September 30, 2014, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated September 22, 2016.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the Project is responsible.

OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS AND GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

Our responsibility under generally accepted auditing standards and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, have been described in our engagement letter dated January 15, 2016. As described in that letter, the objective of the financial statement audit conducted in accordance with the aforementioned standard is:

- To express an opinion on the fairness of the presentation of the Project's statements of project account for the year ended September 30, 2014 in conformity with the basis of cash receipts and disbursements, in all material respects, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America ("generally accepted accounting principles");
- To report on the Project's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and loan agreements and other matters for the year ended September 30, 2014 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*.

Our responsibility under generally accepted auditing standards include forming and expressing an opinion about whether the statement of project account that has been prepared with the oversight of management and the Project Accountant is presented fairly, in all material respects,

in conformity with the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles. The audit of the statement of project account does not relieve management or the Project Accountant of their responsibilities.

We consider the Project's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Project's internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statement prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. During the year ended September 30, 2014, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

CORRECTED MISSTATEMENTS

Our audit of the financial statement was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Material misstatements were brought to the attention of management as a result of our audit procedures and were corrected by management during the current period. We have attached to this letter, as Appendix A-1 and A-2 to Attachment I, a summary of misstatements corrected by management.

SIGNIFICANT ACCOUNTING POLICIES

The Project's significant accounting policies are set forth in Note (1) B to the Project's financial statement. During the year ended September 30, 2014, there were no significant changes in previously adopted accounting policies or their application.

OTHER INFORMATION IN THE QUARTERLY REPORTS

The 2014 audited financial statements were not included in documents containing other information such as the Project's Quarterly Reports

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the Project's 2014 financial statements.

CONSULTATION WITH OTHER ACCOUNTANTS

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2014.

MANAGEMENT’S REPRESENTATION

We have made specific inquiries of the Project’s management about the representation embodied in the financial statement. Additionally, we have requested that management provide to us the written representations the Project is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this report as Attachment II, a copy of the representation letter we obtained from management.

SIGNIFICANT ISSUE(S) DISCUSSED, OR SUBJECT OF CORRESPONDENCE WITH MANAGEMENT

Throughout the year, routine discussions regarding the application of accounting principles or auditing standards were held with management in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions or correspondence did not involve significant issues requiring communication to the Project’s management.

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered difficulties in obtaining documents supporting the Project’s transactions. On the other hand, we received full cooperation of the management and staff and had unrestricted access to their records throughout the course of our audit.

CONTROL RELATED MATTERS

We have issued a separate report to you, dated September 22, 2016, on the Project’s internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and loan agreements and other matters, which was based on the audit performed in accordance with *Government Auditing Standards*.

This report is intended solely for the information and use of Project management and others within the Department and is not intended to be and should not be used by anyone other than these specified parties.

We wish to thank the management and staff of the Department of TC&I and the Department of Finance & Administration for their cooperation and assistance during the course of this engagement.

Sincerely,

Haser H. Hainrick
National Public Auditor

ATTACHMENT I

APPENDIX A-1

SUMMARY OF CORRECTED MISSTATEMENT FOR DIRECT PAYMENT

Date	Description	Ref No.	Disbursement	Revenue
ADB Loan 2099 – FSM (SF)			Dr	Cr
10/3/2013	Supply of Pole Hardware	PD09D	9,781.00	9,781.00
10/15/2013	Rehabilitation of Pohnpei Sewerage Reticulation System	DP084	58,626.53	58,626.53
12/19/2013	Auto Car Drawings	PD024	15,870.44	15,870.44
1/15/2014	Capitalization	CAP	68,658.90	68,658.90
7/15/2014	Capitalization	CAP	72,443.74	72,443.74
8/1/2014	Various Cost	IA011	45,344.51	45,344.51
	Sub-total		270,725.12	270,725.12
ADB Loan 2100 –FSM (OCR)				
1/15/2014	Capitalization	CAP	15,464.66	15,464.66
2/6/2014	1.2 MW Medium – Speed Diesel Generator	IA08B	39,211.64	39,211.64
7/15/2014	Capitalization	CAP	17,806.48	17,806.48
8/5/2014	5% Retention	DP098	167,732.00	167,732.00
	Sub-total		240,214.78	240,214.78
Grand total			\$ 510,939.90	\$ 510,939.90

APPENDIX A-2

SUMMARY OF CORRECTED MISSTATEMENT FOR FSM SHARE

Date	Description	Ref No.	Disbursement	Revenue
			Dr	Cr
FY2011	Audit was done by Deloitte		\$ 188,119.13	\$ 188,119.13
FY2013				
10/19/2012	Inflow & Infiltration Study		22,669.68	22,669.68
4/23/2013	Contractual Services		74,230.00	74,230.00
	Sub-total		285,018.81	285,018.81
FY2014				
11/22/13	Pohnpei Sewer – Refurbishment & Augmentation of Wastewater	104931	26,474.20	26,474.20
1/17/14	Pohnpei Sewer – Refurbishment & Augmentation of Wastewater	104975	21,137.00	21,137.00
1/17/14	Contractor/Equipment & Materials	104975	14,584.00	14,584.00
3/19/14	Pohnpei Sewer – Refurbishment & Augmentation of Wastewater	105031	17,718.50	17,718.50
3/19/14	Kolonia Sewage Treatment Plant Rehabilitation &Augmentation	105031	19,840.40	19,840.40
8/21/14	Pohnpei Progress Glaim #15	105194	6,889.00	6,889.00
8/21/14	Water Supply Phase II	105197	90,431.10	90,431.10
10/9/13	Kolonia Sewage Treatment Plant Rehabilitation &Augmentation	104879	58,007.00	58,007.00
11/22/13	Change Order #4 – 20%	104930	14,656.63	14,656.63
11/22/13	PNI Sewerage Reticulation Project 20%	104930	22,262.53	22,262.53
11/22/13	Change Order #3 & 4 – 20%	104930	19,424.35	19,424.35
	Sub-total		311,424.71	311,424.71
	Grand-total		\$ 596,443.52	\$ 596,443.52



**GOVERNMENT OF THE
FEDERATED STATES OF MICRONESIA**
Department of Transportation, Communication & Infrastructure
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Secretary, Dept. of TC&I

September 22, 2016

Mr. Haser Hainrick
National Public Auditor
Federated States of Micronesia
P. O. Box Ps-05
Palikir, Pohnpei FM 96941

Haser
9.26.2016



Dear Mr. Hainrick:

We are providing this letter in connection with your audit of the financial statement of the Federated States of Micronesia Omnibus Infrastructure Development Project (the Project) financed by ADB Loans 2099-ADF and 2100-OCR for the year ended September 30, 2014, for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the cash receipts and disbursements of the Project prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP).

We confirm that we are responsible for the following:

- a. The fair presentation in the schedule of activities in conformity with the comprehensive basis of accounting other than the accounting principles generally accepted in the United States of America.
- b. The design and implementation of the programs and controls to prevent and detect fraud.
- c. Establishing and maintaining effective internal control over financial reporting.
- d. The review and approval of the financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP). Our review was based on the use of the financial statement disclosure control list for stand-alone business-type activities obtained from the Government Finance Officers Association.

Certain representations in this letter are described as being limited to matter that are material. Items are considered material, regardless of size, if they involve an omission or

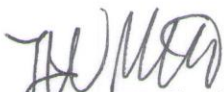
ATTACHMENT II, CONTINUED

misstatement of accounting information that, in light of surrounding circumstances, make it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audits:

1. The financial statements referred to above are fairly presented in conformity with the comprehensive basis of accounting other than the accounting principles generally accepted in the United States of America.
2. We have made available to you all financial records and related documents.
3. We have no knowledge of any fraud or suspected fraud affecting the Project's involving (a) management (b) employees who have significant roles in the project's internal control, or (c) other if the fraud could have a material effect on the financial statements.
4. We have no knowledge of any allegations of fraud or suspected fraud affecting the Project received in communications from employees, former employees, consultants or others.
5. There are no unasserted claims or assessment that legal counsel has advised us, or that we are aware of, that are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, Accounting for Contingencies.
6. There are no transactions that have not been properly recorded in the accounting records underlying the financial statement.
7. The projects have no plans or intentions that may affect the carrying value or classification of assets and liabilities.
8. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements.
 - a. The concentration exists at the date of the financial statements.
 - b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact.
 - c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.
9. There are no:
 - a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statements No. 5, Accounting Contingencies.
10. We have complied with all aspects of contractual agreements that have a material effect on the financial statements in the event of noncompliance.

Sincerely,



Lukner Weilbacher
Secretary, Department of TC&I